

Message Text

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14

ACTION EB-07

INFO OCT-01 AF-06 EUR-12 IO-10 ISO-00 AID-05 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02 L-03 PA-02

PRS-01 NEA-10 ARA-10 /141 W
----- 045614

R 171545Z NOV 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1713

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

USMISSION OECD PARIS

AMCONSUL ZURICH

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DEPT PASS TREASURY AND FRB

EO 11652: N/A

TAGS: ECON EFIN SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF NOV 9-15

1. SUMMARY: BOTH THE FOREIGN EXCHANGE AND GOLD MARKETS
WERE QUIET AS THE DOLLAR STRENGTHENED MODERATELY AND GOLD
PRICES EASED DOWNWARD. INTEREST RATES WERE STABLE THIS WEEK,
BUT THE UNION BANK OF SWITZERLAND EXPECTS THEM TO REMAIN
UNDER DOWNWARD PRESSURE UNTIL THE MIDDLE OF NEXT YEAR WHEN
INCREASED CREDIT DEMAND FROM THE PUBLIC AND BUSINESS SECTORS
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SHOULD START RATES MOVING UPWARD AGAIN. THE SWISS

NATIONAL BANK (SNB) HAS EXPRESSED CONCERN ABOUT THE IMPACT OF PROJECTED PUBLIC SECTOR BORROWING FOR NEXT YEAR AND INDICATED IT PLANS TO CONTINUE FOLLOWING A FAIRLY RESTRICTIVE MONETARY POLICY. INITIAL SWISS PRESS REACTION TO THE ECONOMIC SUMMIT HAS BEEN LESS THAN ENTHUSIASTIC. FORECASTS BY THE UNION BANK, THE SWISS CREDIT BANK, AND THE SNB GENERALLY AGREE THAT 1976 WILL SEE AN IMPROVEMENT IN THE SWISS ECONOMIC SITUATION. DURING OCT, UNEMPLOYMENT ROSE AGAIN.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: THE SPOT DOLLAR FIRMED SLOWLY BUT SURELY IN RELATIVELY QUIET TRADING THIS WEEK. ONE FOREIGN EXCHANGE TRADER SAID THAT TURNOVER WAS SOMEWHAT LESS THAN IN RECENT WEEKS AND SPECULATED THAT THE MARKET IS WAITING TO SEE WHAT DEVELOPS IN THE NEW YORK CITY FINANCIAL CRISIS. THE GOLD MARKET WAS ALSO QUIET AND PRICES WERE SOMEWHAT WEAKER. RATES AS FOLLOWS:

	11/10 (OPEN)	11/14 (CLOSE)
SPOT DOLLAR	SF 2.6375	SF 2.6550
FORWARD DISCOUNTS (PCT. P.A)		
ONE MONTH	- 4.2	- 4.2
2 MONTHS	- 3.1	- 3.3
3 MONTHS	- 3.5	- 3.4
6 MONTHS	- 3.5	- 3.5
12 MONTHS	- 3.3	- 3.3
SF/DM	SF 102.74	SF 102.50
GOLD	\$143.50	\$141.75

3. MONEY AND CAPITAL MARKETS: THE CALL MONEY RATE WAS UNCHANGED AT 0.5 PERCENT ALL WEEK. STOCK PRICES CONTINUED TO MOVE UPWARD AND THE SKA INDEX REACHED 189.6 (END 1959 EQUALS 100) ON NOV 14. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS DROPPED VERY SLIGHTLY FROM 6.04 PERCENT ON NOV 7 TO 6.03 PERCENT ON NOV 14.

4. INTEREST RATES: IN A STUDY ON DOMESTIC INTEREST RATES, THE UNION BANK OF SWITZERLAND (UBS) STATES THAT UNCLASSIFIED

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INCREASED COMPETITION AMONG THE BANKS WILL KEEP DOWNWARD PRESSURE ON INTEREST RATES UNTIL MID-1976. BY THAT TIME, INCREASED PUBLIC SECTOR BORROWING AND AN EXPECTED RISE IN BUSINESS DEMAND FOR CREDIT WILL TIGHTEN THE CAPITAL MARKET AND PRODUCE A RENEWED UPSWING IN INTEREST RATES.

5. CONFEDERATION FINANCES: THE 1976 BUDGET ESTIMATES

OF THE SWISS FEDERAL RAILWAYS CALL FOR AN OVERALL
DEFICIT OF SF 792.7 MILLION WHICH WILL HAVE TO BE
FINANCED BY THE CONFEDERATION. THE VOLUME OF BOTH
PASSENGER AND FREIGHT TRAFFIC HAS FALL EN SHARPLY
THIS YEAR; THIS TREND IS EXPECTED TO CONTINUE IN
1976. AS A CONSEQUENCE, THE OVERALL DEFICIT FOR
THIS YEAR, WHICH WAS ORIGINALLY ESTIMATED AT SF 166
MILLION, IS NOW LIKELY TO BE BETWEEN SF 600 AND SF 630 MILLION.

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R 171545Z NOV 75
FM AMEMBASSY BERN
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6. MONETARY POLICY: IN ITS MONTHLY REPORT FOR NOVEMBER,
THE SNB EXPRESSES ITS CONCERN OVER THE PROSPECT OF

SOME SF 3 BILLION IN PUBLIC SECTOR DEFICIT IN 1976 (SEE BERN 4554). CONTRARY TO STATEMENTS MADE SEVERAL WEEKS AGO WHEN BUDGET ESTIMATES FOR 1976 WERE RELEASED, THE SNB NOW BELIEVES THAT ONLY A PORTION OF THE CONFEDERATION'S FINANCING NEEDS NEXT YEAR CAN BE MET BY CAPITAL MARKET BORROWING WITHOUT UNDULY AFFECTING INTEREST RATES. ACCORDING TO THE SNB, OTHER METHODS OF FINANCING WIL HAVE TO BE FOUND FOR THE BALANCE (ONE SNB SOURCE HAS UNCLASSIFIED

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SUGGESTED MORE DIRECT BORROWING FROM THE COMMERCIAL BANKS). IN LIGHT OF THIS SITUATION, THE REPORT OUTLINES THREE GOALS OF ITS MONETARY POLICY: 1) CONTROL THE MONEY SUPPLY IN SUCH A WAY AS NOT TO RENEW INFLATIONARY PRESSURES, 2) FOLLOW A MIDDLE-OF-THE-ROAD INTEREST RATE POLICY TO PROMOTE DOMESTIC INVESTMENT WITHOUT PROVIDING TOO MUCH ATTRACTION FOR FOREIGN CAPITAL, AND 3) KEEP THE VALUE OF THE SF AS LOW AS POSSIBLE IN FOREIGN EXCHANGE MARKETS.

7. PRESS REACTION TO ECONOMIC SUMMIT: INITIAL SWISS PRESS REACTION TO THE RAMBOUILLET SUMMIT MEETING HAS BEEN LESS THAN ENTHUSIASTIC. THE SHARPEST REACTION CAME FROM THE SWISS EDITION OF THE AGENCE ECONOMIQUE ET FINANCIERE (AGEFI). IN A SARCASTIC WEEKEND EDITORIAL, THE AGEFI COMPARED THE RAMBOUILLET MEETING WITH THE 1933 INTERNATIONAL ECONOMIC CONFERENCE IN LONDON AND PREDICTED A SIMILAR DEGREE OF SUCCESS. THE EDITORIAL SAID THAT THERE WAS A SLIM CHANCE THAT THE MEETING MIGHT ACHIEVE A MORE STABLE RELATIONSHIP BETWEEN THE DOLLAR AND THE EUROPEAN SNAKE.

ECONOMIC

8. ECONOMIC FORECASTS: BASED ON A SURVEY OF 250 SWISS COMPANIES, THE UNION BANK OF SWITZERLAND (UBS) EARLY THIS WEEK ISSUED A RELATIVELY OPTIMISTIC FORECAST FOR 1976. WHILE A MAJORITY OF THE FIRMS SURVEYED EXPECT BUSINESS ACTIVITY TO REMAIN DEPRESSED FOR THE REMAINDER OF THIS YEAR, A LARGER NUMBER THAN IN PREVIOUS SURVEYS BELIEVE THAT THE RECESSION IS NOW BOTTOMING OUT AND THAT A MODEST ECONOMIC UPTURN MAY OCCUR IN 1976. THE UBS PREDICTS THE UPTURN WILL COME IN THE SECOND HALF OF NEXT YEAR, ON THE ASSUMPTION OF ECONOMIC RECOVERY IN OTHER COUNTRIES, PARTICULARLY THE US. THE FORECAST NOTES THAT EXPORT COMPANIES ARE ATTEMPTING TO COMPENSATE FOR THE DECLINE IN SALES TO THEIR TRADITIONAL MARKETS THROUGH INCREASED EXPORTS TO EASTERN EUROPE, THE OPEC COUNTRIES, AND LATIN AMERICA. OTHER FORECASTS ISSUED BY THE SNB AND THE

SWISS CREDIT BANK ARE IN BASIC AGREEMENT WITH THE UBS,
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ALTHOUGH SWISS CREDIT BELIEVES THE GOVT SHOULD FOLLOW A MORE EXPANSIONIST MONETARY POLICY. IN A SPEECH LATER IN THE WEEK, PROF. FRANCESCO KNESCHAUREK, THE FEDERAL DELEGATE FOR BUSINESS-CYCLE QUESTIONS, SAID THE SOLUTION TO SWITZERLAND'S ECONOMIC PROBLEMS DEPENDS ON MORE THAN A RESURGENCE OF BUSINESS ACTIVITY ABROAD; NEW GOS MEASURES TO CREATE JOBS WILL ALSO BE NEEDED.

9. UNEMPLOYMENT CONTINUES TO RISE: OFFICIAL FIGURES FOR THE END OF OCT LIST 15,756 UNEMPLOYED (ABOUT 0.6 PERCENT OF THE LABOR FORCE), AN INCREASE OF 26.6 PERCENT OVER SEP AND FIVE AND ONE-HALF TIMES MORE THAN A YEAR EARLIER. JOB OPENINGS AT THE END OF OCT TOTALED 2,855 COMPARED WITH 3,355 IN SEP AND 2,186 THE PREVIOUS OCT.

10. CONSTRUCTION INDUSTRY: ACCORDING TO FIGURES RELEASED BY AN INDUSTRY ASSOCIATION, THE SF VALUE OF BUILDING ACTIVITY IN SWITZERLAND FELL 58 PERCENT FROM OCT 1972 TO OCT 1975. OVER THE SAME PERIOD, EMPLOYMENT DECLINED 35 PERCENT; SEASONAL (I.E., FOREIGN) WORKERS TOOK THE BRUNT OF THE REDUCTION WITH A CUT BACK OF 64 PERCENT.
ODELL

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